

Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author: Hertzberg Analyst: Marion Mann DeJong Bill Number: AB 473Related Bills: _____ Telephone: 845-6979 Amended Date: 07/06/1999Attorney: Patrick Kusiak Sponsor: _____**SUBJECT:** Manufacturers' Investment Credit/Extends Repeal Date To January 1, 2004

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

☒ DEPARTMENT POSITION CHANGED TO pending.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED _____ STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

This bill would extend the repeal date of the Manufacturers' Investment Credit (MIC) from January 1, 2001, to January 1, 2004.

This bill would also make a corresponding change to the sales tax exemption provided under the Sales and Use Tax Law. This provision is not discussed in this analysis, as this department does not administer it.

SUMMARY OF AMENDMENT

The June 23, 1999, amendments reinserted the manufacturing employment evaluation test and the repeal date into the MIC and extended the repeal date from January 1, 2001, to January 1, 2004. The amendments also extended the repeal date of the sales tax exemption provided under the Sales and Use Tax Law and added a provision stating that no reimbursement of lost sales and use tax revenues would be made.

The July 6, 1999, amendments made technical changes and deleted the provision stating no reimbursement of lost sales and use tax revenues would be made.

This analysis replaces all previous analyses.

EFFECTIVE DATE

As a tax levy, this bill would become effective immediately. Since this bill would extend the sunset date, it would apply to taxable or income years beginning on or after January 1, 2001.

Board Position:

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|-----------------------------|------------------------------|---|
| <input type="checkbox"/> S | <input type="checkbox"/> NA | <input type="checkbox"/> NP |
| <input type="checkbox"/> SA | <input type="checkbox"/> O | <input type="checkbox"/> NAR |
| <input type="checkbox"/> N | <input type="checkbox"/> OUA | <input checked="" type="checkbox"/> PENDING |

Department Director

Date

Johnnie Lou Rosas

7/15/1999

LEGISLATIVE HISTORY

SB 671 (Ch. 881, Stats 1993) added the MIC to the Revenue and Taxation Code. **SB 676 (Ch. 751, Stats. 1994)** made clarifying changes to the MIC. **SB 975 (Ch. 91, Stats. 1995)** was a code maintenance bill; it made technical changes to the MIC. **SB 38 (Ch. 954, Stats. 1996)** expanded the MIC by: (1) adding semiconductor equipment manufacturing and certain aerospace manufacturing to the definition of "qualified taxpayer" for the special purpose building provision; and (2) adding taxpayers engaged in certain biopharmaceutical and biotech activities to the definition of "small business." **SB 1106 (Ch. 604, Stats. 1997)** was a clean-up bill for SB 38; it made technical changes to the MIC. **AB 2798 (Ch. 323, Stats 1998)** extended the MIC to manufacturers of custom or prepackaged computer software.

SPECIFIC FINDINGS

Under current state law, qualified taxpayers engaged in specified manufacturing activities are allowed a 6% credit, known as the MIC, for qualified property that is placed in service in California.

The MIC would sunset on January 1, 2001, or January 1st of the earliest subsequent year if the Employment Development Department determines that manufacturing (excluding aerospace) employment in California on the preceding January 1st does not exceed the January 1, 1994, employment level by at least 100,000 jobs.

This bill would extend the repeal date from January 1, 2001, to January 1, 2004. Thus, the MIC would be repealed on January 1, 2004, or the January 1st of the earliest subsequent year that the manufacturing employment evaluation test is not met.

This bill also would correct cross-references to "qualified property" that were inadvertently omitted from AB 2798 (Stats. 1998, Ch. 323) and make other technical changes.

Implementation Considerations

Implementation of this bill would occur during the department's normal annual system update.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

This bill would not affect Personal Income Tax (PIT) or Bank and Corporation Tax (B&CT) revenues.

Tax Revenue Discussion

The current law MIC will sunset only if employment in manufacturing, not including aerospace, on January 1, 2001, "does not exceed by 100,000 jobs

the total manufacturing sector employment in this state on January 1, 1994." Employment in manufacturing increased by 136,000 jobs between 1994 and 1997. It seems safe to conclude that the targeted increase will be met and that the current law MIC will remain operative indefinitely beyond 2001. Thus, unless a major change in the economy occurred, extending the sunset date from January 1, 2001, to January 1, 2004, would not affect PIT or B&CT revenues.

Under current law, if manufacturing employment were to dip below the 100,000 incremental manufacturing employment target for any year from 2001 on, the MIC would be repealed. The repeal of the MIC would eliminate credits created during the year in which the repeal occurs. However, substantial amounts of unused carryover MIC would remain and could be applied in years beyond the repeal of the MIC. Generally, the amount of MIC newly created during any given year is estimated to be in the range of \$700 million to \$1 billion. The amount of unused carryover credit that could be available is estimated to be over \$2 billion.

BOARD POSITION

Pending.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to support this bill as introduced February 18, 1999. The Franchise Tax Board has not had the opportunity to consider the June 23, 1999, or the July 6, 1999, amendments.